

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF AIRVIEW ESTATES, INC.	)	
FOR AN ADJUSTMENT OF RATES PURSUANT	)	
TO THE ALTERNATIVE RATE FILING	)	CASE NO. 95-273
PROCEDURE FOR SMALL UTILITIES	)	

O R D E R

On July 20, 1995, Airview Estates, Inc. ("Airview") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Airview's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 20th day of September, 1995.

ATTEST:

  
Executive Director

PUBLIC SERVICE COMMISSION

  
For the Commission

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF AIRVIEW	)	
ESTATES, INC. FOR A RATE	)	
ADJUSTMENT PURSUANT TO THE	)	CASE NO. 95-273
ALTERNATIVE RATE FILING	)	
PROCEDURE FOR SMALL UTILITIES	)	

STAFF REPORT

Prepared By: Mark C. Frost  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Financial Analysis Division

Prepared By: John Geoghegan  
Public Utility Rate  
Analyst, Chief  
Communications, Water  
and Sewer Rate Design Branch  
Rates and Research Division

STAFF REPORT  
ON  
AIRVIEW ESTATES, INC.  
CASE NO. 95-273

On June 21, 1995 Airview Estates, Inc. ("Airview") submitted its application seeking to increase its rates pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). In order to evaluate the requested increase, the Commission Staff ("Staff") performed a limited financial review of Airview's test period operations, the calendar year ending December 31, 1994.

The scope of the review was limited to obtaining information as to whether the test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Mark Frost of the Commission's Division of Financial Analysis performed the limited review on August 2 and 4, 1995. Mr. Frost is responsible for the preparation of this Staff Report except for the determination of Normalized Operating Revenue; Rate Design; and Attachments E and F, which were prepared by John Geoghegan of the Commission's Division of Rates and Research.

A comparison of Airview's actual and pro forma operations is shown in Attachment A. Based upon Staff's recommendations, Airview's operating statement would appear as set forth in Attachment B.

Airview requested additional revenues of \$5,559. Based on Staff's adjusted operations and the operating ratio normally

allowed by this Commission, Staff believes Airview could justify additional revenues of \$7,671, as shown in Attachment C. However, since Airview's proposed rates will produce a positive cash flow of \$7,377, as computed in Attachment D, Staff recommends that Airview's proposed rates be accepted.

If Airview wishes to amend its application to reflect rates that will generate the additional revenue of \$7,671, Staff recommends that such amendment be filed with any comments on the Staff Report. Should Airview amend its application, Staff recommends that Airview be required to notify its customers of the amended rate proposal.

The rates contained in Attachment E will achieve the requested revenue increase of \$5,559. Those contained in Attachment F will achieve a revenue increase of \$7,671.

Signatures



Prepared By: Mark C. Frost  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Financial Analysis Division



Prepared By: John Geoghegan  
Public Utility Rate  
Analyst, Chief  
Communications, Water and  
Sewer Rate Design Branch  
Rates and Research Division

**ATTACHMENT A**  
**STAFF REPORT CASE NO. 95-273**  
**AIRVIEW'S REQUESTED PRO FORMA OPERATIONS**

	1994 Annual Report	Pro Forma Adjustments	Foot- note Ref	Pro Forma Operations
<b>Operating Revenue:</b>				
<b>Flat Rate Revenues:</b>				
Residential	\$37,787	\$0		\$37,787
<b>Operating Expenses:</b>				
<b>Operation &amp; Maint Exp:</b>				
Supervision - Other	\$3,157	\$0		\$3,157
Sludge Hauling	433	0		433
Utility - Water	190	0		190
Other - Labor, Mat'ls, & Exp	3,053	0		3,053
Fuel & Power	3,544	0		3,544
Chemicals	2,584	0		2,584
Routine Maintenance Fee	6,000	0		6,000
Maint. Collection System	1,721	0		1,721
Maint. Pumping System	7,065	0		7,065
Maint. Treatment & Disposal	1,891	0		1,891
Maint. Other	900	0		900
Agency Collection Fee	2,387	0		2,387
Office Supplies & Other Exp.	660	0		660
Outside Services	2,650	0		2,650
Insurance	0	0		0
<b>Total Operation &amp; Maint. Exp</b>	<b>\$36,235</b>	<b>\$0</b>		<b>\$36,235</b>
Depreciation	1,309	0		1,309
Amortization	0	600		600
Taxes Other Than Income Tax	0	0		0
<b>Total Operating Expenses</b>	<b>\$37,544</b>	<b>\$600</b>		<b>\$38,144</b>
<b>Net Operating Income</b>	<b>\$243</b>	<b>(\$600)</b>		<b>(\$357)</b>

**ATTACHMENT B**  
**STAFF REPORT CASE NO. 95-273**  
**STAFF'S RECOMMENDED PRO FORMA OPERATIONS**

	1994 Annual Report	Pro Forma Adjustments	Foot- note Ref	Pro Forma Operations
<b>Operating Revenue:</b>				
<b>Flat Rate Revenues:</b>				
Residential	\$37,787	(\$107)	A	\$37,680
<b>Operating Expenses:</b>				
<b>Operation &amp; Maint Exp:</b>				
Supervision - Other	\$3,157	\$0		\$3,157
Sludge Hauling	433	0		433
Utility - Water	190	14	B	204
Other - Labor, Mat'ls, & Exp	3,053	(273)	C	2,780
Fuel & Power	3,544	296	D	3,840
Chemicals	2,584	0		2,584
Routine Maintenance Fee	6,000	0		6,000
Maint. Collection System	1,721	0		1,721
Maint. Pumping System	7,065	(1,724)	E	5,341
Maint. Treatment & Disposal	1,891	0		1,891
Maint. Other	900	0		900
Agency Collection Fee	2,387	13	F	2,400
Office Supplies & Other Exp.	660	(304)	G	356
Outside Services	2,650	0		2,650
Insurance	0	1,222	H	1,222
<b>Total Operation &amp; Maint. Exp</b>	<b>\$36,235</b>	<b>(\$756)</b>		<b>\$35,479</b>
Depreciation	1,309	521	I	1,830
Amortization	0	1,165	J	1,165
Taxes Other Than Income Tax	0	383	K	383
<b>Total Operating Expenses</b>	<b>\$37,544</b>	<b>\$1,313</b>		<b>\$38,857</b>
<b>Net Operating Income</b>	<b>\$243</b>	<b>(\$1,420)</b>		<b>(\$1,177)</b>

**A. Operating Revenue:**

Revenue normalization using the current tariffed rate & end of test period customer level.

Current Rate	\$15.70
12-Months	12
-----	
Average Monthly Collections	\$188
End of Period Customer Level	200
-----	
Normalized Revenue from Rates	\$37,680
Reported Revenue from Rates	37,787
-----	
Staff's Recommended Adjustment	(\$107)
-----	

**B. Utility - Water:**

This adjustment is based on Staff's analysis of the actual test period water invoices.

Service		
From	To	Amount
-----		-----
06-Jan-94	04-Feb-94	\$17
04-Feb-94	04-Mar-94	17
04-Feb-94	05-Apr-94	17
05-Apr-94	05-May-94	17
05-May-94	06-Jun-94	17
06-Jun-94	06-Jul-94	17
06-Jul-94	04-Aug-94	17
04-Aug-94	02-Sep-94	17
02-Sep-94	05-Oct-94	17
05-Oct-94	07-Nov-94	17
07-Nov-94	05-Dec-94	17
05-Dec-94	05-Jan-95	17
		-----
Actual Utility - Water Expense		\$204
Reported Utility - Water Expense		190
		-----
Staff's Recommended Adjustment		\$14
		-----

**C. Other - Labor, Mat'ls, & Other Exp:**

This adjustment reflects the current KPDES testing fee and removes a nonrecurring expenditure that has been amortized.

**KPDES Testing Fee:**

Current KPDES Fee	\$190
No. of Tests per Year	12

Pro Forma Testing Expense	\$2,280
Reported Testing Expense	2,057

KPDES Adjustment	\$223
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**Nonrecurring Expenditure:**

Andriot Davidson - Program for Emergency & Disaster	(496)
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Staff's Recommended Adjustment	(\$273)
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**D. Fuel & Power:**

This adjustment is based on Staff's analysis of the actual test period electric invoices.

Service		Meter No.	Meter No.	Total
From	To	0017387	00016674	
15-Jan-95	16-Feb-94	\$104	\$265	\$369
16-Feb-94	18-Mar-94	\$99	\$223	322
18-Mar-94	18-Apr-94	\$91	\$251	342
18-Apr-94	16-May-94	\$94	\$323	417
16-May-94	15-Jun-94	\$89	\$208	295
15-Jun-94	14-Jul-94	\$83	\$227	310
14-Jul-94	16-Aug-94	\$91	\$249	340
16-Aug-94	15-Sep-94	\$40	\$217	257
15-Sep-94	14-Oct-94	\$31	\$210	241
14-Oct-94	14-Nov-94	\$34	\$263	297
14-Nov-94	14-Dec-94	\$45	\$252	297
14-Dec-94	18-Jan-95	\$67	\$286	353

Actual Fuel & Power Expense	\$3,840
Reported Fuel & Power Expense	3,544

Staff's Recommended Adjustment	\$296
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**E. Maint. Pumping System:**

The following capital expenditures have been removed and depreciated.

Invoice Date	Vendor	Description	Amount
24-Jan-94	Andriot Davidson	Made 8 Diffuser Drops	(\$939)
11-Feb-94	Andriot Davidson	Installed 8 Diffuser Drops	(381)
21-Mar-94	Andriot Davidson	Installed Blower & Communitor	(404)
Staff's Recommended Adjustment			(\$1,724)

**F. Agency Collection Fee:**

This fee has been adjusted to reflect the end of period level of customers and the current fee charged by the Hardin County Water District.

Current Collection Fee per Customer	\$1.00
End of Period Customer Level	200
Average Monthly Collection fee	\$200
12 - Months	12
Normalized Collection Fee	\$2,400
Reported Collection Fee	2,387
Staff's Recommended Adjustment	\$13

**G. Office Supplies:**

Given that Airview has no employees, and its size, a cellular phone is not warranted.

Cellular 1 - Mobile Phone	(\$304)
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**H. Insurance:**

The insurance premiums paid in 1994 were not recorded in Airview's general ledger and therefore, were not included in test period operations.

1994 General Liability Premium	\$1,222
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**I. Depreciation:**

Depreciating test period capital expenditures over the appropriate depreciation lives.

	Amount	Depreciation Lives	Depreciation Expense
	-----	-----	-----
8 Diffuser Drops	\$939	3	\$313
Installed 8 Diffuser Drops	\$381	3	127
Installed Blower & Communitor	\$404	5	81
			-----
Staff's Recommended Adjustment			\$521
			-----

**J. Amortization:**

Amortizing the test period and post test period nonrecurring expenditures over the appropriate amortization lives.

	Amount	Amortization Lives	Amortization Expense
	-----	-----	-----
Test Period:			
Rate Case Cost	\$1,800	3	\$600
Program Emergency & Disaster	\$486	3	165
Post Test Period:			
Emergency Response Plan	\$1,200	3	400
			-----
Staff's Recommended Adjustment			\$1,165
			-----

**K. Taxes Other Than Income Tax:**

The property taxes and assessments paid in 1994 were not recorded in Airview's general ledger and therefore, were not included in test period operations.

Ky License Fee	\$183
PSC Assessment	58
Property Tax	142
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Staff's Recommended Adjustment	\$383
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**ATTACHMENT C**  
**STAFF REPORT CASE NO. 95-273**  
**REVENUE REQUIREMENT DETERMINATION**

Operating Expenses	\$38,857
Recommended Operating Ratio	88%
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Subtotal	\$44,156
Operating Expenses	38,857
	-----
Margin After Income Taxes	\$5,299
Gross-up Factor	1.225480
	-----
Margin Before Income Taxes	\$6,494
Operating Expenses	38,857
	-----
Revenue Requirement	\$45,351
Normalized Operating Revenue	37,680
	-----
Increase Staff Believes Airview Could Justify	\$7,671
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**ATTACHMENT D**  
**STAFF REPORT CASE NO. 95-273**  
**CASH FLOW CALCULATION**

	<b>Staff's Pro Forma Operations</b>	<b>Airview's Requested Increase</b>	<b>Staff's Operations with Airview's Increase</b>
	<hr/>	<hr/>	<hr/>
<b>Operating Revenues</b>	<b>\$37,680</b>	<b>\$5,559</b>	<b>\$43,239</b>
<b>Less: Operating Expenses</b>	<b>38,857</b>	<b>0</b>	<b>38,857</b>
	<hr/>	<hr/>	<hr/>
<b>Net Operating Income</b>	<b>(\$1,177)</b>	<b>\$5,559</b>	<b>\$4,382</b>
<b>Add: Depreciation Expense</b>	<b>1,830</b>	<b>0</b>	<b>1,830</b>
<b>Amortization Expense</b>	<b>1,165</b>	<b>0</b>	<b>1,165</b>
	<hr/>	<hr/>	<hr/>
<b>Net Cash Flow</b>	<b>\$1,818</b>	<b>\$5,559</b>	<b>\$7,377</b>
	<hr/>	<hr/>	<hr/>

**ATTACHMENT E**  
**STAFF REPORT CASE NO. 93-273**  
**REQUESTED RATE**

Monthly rate of \$18.01 per single-family residence.

**ATTACHMENT F**  
**STAFF REPORT CASE NO. 93-273**  
**THE RATE STAFF BELIEVES IS JUSTIFIABLE**

Monthly rate of \$18.90<sup>1</sup> per single-family residence.

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<sup>1</sup>	Revenue Requirement	\$ 45,351.00
	12-Months	<u>+ 12</u>
	Monthly Collections	\$ 3,779.25
	End-of-Period Customers	<u>+ 200</u>
	Monthly Rate	<u>\$ 18.90</u>